

**MARQUETTE-ALGER REGIONAL
EDUCATIONAL SERVICE AGENCY
FINANCIAL STATEMENTS
For the Year Ended June 30, 2006**

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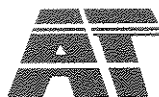
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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Marquette-Alger Regional Educational Service Agency
321 E. Ohio Street
Marquette, Michigan 49855

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marquette-Alger Regional Education Service Agency, as of, and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Marquette-Alger Regional Education Service Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Marquette-Alger Regional Educational Service Agency, as of June 30, 2006, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2006, on our consideration of the Marquette-Alger Regional Educational Service Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 5 thru 13, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Marquette-Alger Regional Educational Service Agency

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marquette-Alger Regional Educational Service Agency's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

Year Ended June 30, 2006

Marquette-Alger Regional Educational Service Agency ("MARESA" or "Agency") is an intermediate school district located in Marquette County, Michigan. MARESA is in its fourth year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be MARESA's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally Accepted Accounting Principles (GAAP) through GASB 34 requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

District-Wide Financial Statements

The District-Wide Financial Statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The two required district-wide financial statements are the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes all of the Agency's assets and liabilities. The Statement of Activities includes all of the current year's revenues and expenses that are accounted for regardless of when cash is received or paid.

Net Assets, the difference between the Agency's assets and liabilities, are one way to measure a district's financial health or position.

- Over time, increases or decreases in a district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the district's overall health, one needs to consider additional non-financial factors such as changes in the district's property tax base and the condition of school buildings and other facilities.

In district-wide financial statements, the Statement of Activities is divided into two categories:

- Governmental activities: All of the Agency's basic services are included here, such as general and special education and administration. Property taxes and state funding finance most of these activities; and
- Business-type activities: The Agency does not have any activities reported as business-type activities.

Fund Financial Statements

Fund Financial Statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources.

The Fund Financial Statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the following fund types and related activities are defined as followed:

Governmental Fund Types

General Fund: The General Fund is the general operating fund and, accordingly, it is used to account for resources devoted to financing the general services of the Agency except those accounted for in another fund.

Special Revenue Funds: Special Revenue Funds are used to account for the activities of specific revenue sources such as special education.

Capital Projects Fund: The Capital Projects Fund is used to account for financial resources to be used for major capital expenditures, including equipment, not financed by proprietary funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

Debt Service Fund: The Debt Service Fund is used to accumulate resources for payment of interest and principal on long-term bonds payable.

Proprietary Fund Types

Internal Service Funds: Internal Service Funds are used to account for the financing of services provided by one department to another department within the governmental entity. The Agency's Internal Service Funds pay for various Agency unemployment claims and terminal leave benefits through user charges.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Summary of Net Assets (District-Wide Financial Statement)

The condensed Statement of Net Assets as of June 30, 2006 and June 30, 2005, is as follows:

	June 30, 2006	June 30, 2005
Current Assets	\$ 7,184,117	\$ 6,126,926
Capital Assets	2,766,598	3,009,742
Other Assets	-	-
Total Assets	<u>9,950,715</u>	<u>9,136,668</u>
Current Liabilities	3,811,423	2,930,536
Non-current Liabilities	2,072,068	2,105,147
Total Liabilities	<u>5,883,491</u>	<u>5,035,683</u>
Investment in Capital Assets, Net of Related Debt	992,087	1,205,555
Unrestricted	3,075,137	2,895,430
Total Net Assets	<u>\$ 4,067,224</u>	<u>\$ 4,100,985</u>

Statement of Activities (District-Wide Financial Statement)

The condensed Statement of Activities for the fiscal year ended June 30, 2006 and June 30, 2005, is as follows:

	June 30, 2006	June 30, 2005
Charges for Services	\$ 526,402	\$ 205,239
Operating Grants	8,385,349	8,754,774
Property Taxes	3,803,602	3,583,334
State Aid	742,330	708,742
Other	425,043	219,784
Total Revenues	<u>13,882,726</u>	<u>13,471,873</u>
Instruction	977,684	865,340
Supporting Services	6,703,319	6,153,850
Community Services	479,373	460,691
Other	5,756,111	5,828,320
Total Expenses	<u>13,916,487</u>	<u>13,308,201</u>
Change in Net Assets	<u>(33,761)</u>	<u>163,672</u>
Net Assets at Beginning of Year	<u>\$4,100,985</u>	<u>\$3,937,313</u>
Net Assets at End of Year	<u>\$4,067,224</u>	<u>\$4,100,985</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

During the fiscal year ended June 30, 2006, the Agency's net assets increased \$1,348,555 or 33%.

Fund Balances (Fund Financial Statements)

The table below details the Agency's governmental fund balances

	June 30 2006	June 30 2005	Increase (Decrease)
General Fund	\$1,719,714	\$ 1,631,527	\$88,187
Special Education Fund	920,990	993,209	(72,219)
Capital Projects Fund	547,412	315,176	232,236
Other Governmental Funds (Debt Service)	122	154	(32)
	<u>\$ 3,188,238</u>	<u>\$ 2,940,066</u>	<u>\$248,172</u>

The General fund increased \$88,187 due to cost control measures and additional indirect revenue from MARESA becoming the fiscal agent of the State Performance Plan grant.

The Special Education fund decreased \$72,219 mainly due to a reduction in expenditures of grants in which MARESA is the fiscal agent, and per standing policy, to distribute all but 10% (equal to 10% of current year expenditures) of fund equity to local school districts.

The Capital Projects fund increased \$232,236 due to interest earned on investments, transfer from the General fund, and sale of the Cornerstone land.

Proprietary Funds of the Agency are detailed below:

	June 30 2006	June 30 2005	Increase (Decrease)
Retirement Fund	\$ (8,435)	\$ 50,217	\$ (58,652)
Unemployment Fund	272,592	261,450	11,142
	<u>\$ 264,157</u>	<u>\$ 311,667</u>	<u>\$ (47,510)</u>

The Retirement Fund decreased \$58,652 due to payouts related to retirements.

The Unemployment Fund increased \$11,142 due to interest earned on investments.

MARESA also oversees an agency fund that had \$9,355 of assets and liabilities as of June 30, 2006.

Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The Agency levied .2123 mills of property taxes for General Fund operations and 1.80840 mills for Special Education operations on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable value increase for property is capped at the rate of the prior year's CPI increase, or five percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which approximates 50 percent of the market value.

The taxable value of real and personal property located in the District for the 2005 tax year totaled \$1,746,560,531 (consisting of \$874,522,745 for Homestead and \$872,037,786 for Non-Homestead).

The Agency's tax revenue for the 2005-2006 fiscal year was \$3,803,602, which represents approximately 28% of total revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

Budget and Actual Revenues and Expenditures (Required Supplementary Information)

Expenditures -- Budget vs. Actual for the year ended June 30, 2006

General Fund:

	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
Non- Grants	\$ 1,983,939	\$ 2,010,982	\$ 1,934,668	\$ (49,271)	\$ 76,314
Grants	-	3,625,376	2,206,278	2,206,278	(1,419,098)
Total	<u>\$ 1,983,939</u>	<u>\$ 5,636,358</u>	<u>\$ 4,140,946</u>	<u>\$ 2,157,007</u>	<u>\$ (1,342,784)</u>

Special Education Fund:

	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
Non- Grants	\$ 1,253,487	\$ 1,139,957	\$ 996,346	\$ (257,141)	\$ (143,611)
Grants	-	3,976,879	2,984,617	2,984,617	(992,262)
Total	<u>\$ 1,253,487</u>	<u>\$ 5,116,836</u>	<u>\$ 3,980,963</u>	<u>\$ 2,727,476</u>	<u>\$ (1,135,873)</u>

Revenue -- Budget vs. Actual

General Fund:

	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
Non- Grants	\$ 1,566,912	\$ 1,661,121	\$ 1,674,234	\$ 107,322	\$ 13,113
Grants	-	4,586,468	2,855,858	2,855,858	(1,730,610)
Total	<u>\$ 1,566,912</u>	<u>\$ 6,247,589</u>	<u>\$ 4,530,092</u>	<u>\$ 2,963,180</u>	<u>\$ (1,717,497)</u>

Special Education Fund:

	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
Non- Grants	\$ 4,876,492	\$ 5,093,709	\$ 5,208,975	\$ 332,483	\$ 115,266
Grants	-	5,321,838	3,928,704	3,928,704	(1,393,134)
Total	<u>\$ 4,876,492</u>	<u>\$ 10,415,547</u>	<u>\$ 9,137,679</u>	<u>\$ 4,261,187</u>	<u>\$ (1,277,868)</u>

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, MARESA amends its budget twice during the fiscal year. For fiscal year June 30, 2006, the budget was amended in February and June 2006. The June 2006 budget amendment was the final budget for the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

REVENUES:

Revenues changed from Original to Final Budget as follows:

General Fund:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Non-Grants	\$ 1,566,912	\$ 1,661,121	\$ 94,209	5.7%
Grants	-	4,586,468	4,586,468	N/A
Total	\$ 1,566,912	\$ 6,247,589	\$ 4,680,677	74.9%

Special Education Fund:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Non-Grants	\$ 4,876,492	\$ 5,093,709	\$ 217,217	4.3%
Grants	-	5,321,838	5,321,838	N/A
Total	\$ 4,876,492	\$ 10,415,547	\$ 5,539,055	53.2%

Including Grants:

Including grants, the Agency's final budgeted revenues differed from the original budget as follows:

- General Fund by \$4,680,677, a variance of 74.9%.
- Special Education Fund by \$5,539,055 or 53.2% greater than the original budget.

The significant increase in revenue for both funds can be attributed mainly to Grants. Grants are recognized on MARESA financial statements once MARESA receives formal notice of award and approval from the state. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. Also, the final budgets for both the General Fund and the Special Education Fund include grant revenues that will be utilized in the next fiscal year. The Agency budgeted the entire grant awarded by the grantors, even if the grants were to be eligible for carryover in the next fiscal year. Another Contributing factor for both funds was increased interest income revenue due to higher interest rates.

Excluding Grants:

Excluding grants, the Agency's final budgeted revenue in the:

- General Fund was \$1,661,121, which was \$94,209 or 5.7% greater than the original budget.
- Special Education Fund was \$5,093,709, which was \$217,217 or 4.3% greater than the original budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

EXPENDITURES

The Agency's budget for expenditures changed during the year as follows:

General Fund:

Description	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Non-Grants	\$ 1,983,939	\$ 2,010,982	\$ 27,043	1.3%
Grants	-	3,625,376	3,625,376	N/A
Total	\$ 1,983,939	\$ 5,636,358	\$ 3,652,419	64.8%

Special Education Fund:

Description	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Non-Grants	\$ 1,253,487	\$ 1,139,957	\$ (113,530)	(10.0%)
Grants	-	3,976,879	3,976,879	N/A
Total	\$ 1,253,487	\$ 5,116,836	\$ 3,863,349	75.5%

Including Grants:

As indicated above, the Agency's final budgeted expenditures in the:

- General Fund was \$3,652,419 or 64.8% greater than the original budget.
- Special Education Fund was \$3,863,349 or 75.5% greater than the original budget.

The significant increase in expenditures for both funds can also be attributed mainly to Grants. Grants are recognized on MARESA financial statements once MARESA receives formal notice of award and approval from the state. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. Also, the final budgets for both the General Fund and the Special Education Fund include related grant expenditures that will be utilized in the next fiscal year. The Agency budgeted the entire grant awarded by the grantors, even if the grants were to be expended in multiple fiscal years. The grant awards not expended by June 30, 2006, and eligible for carryover, are expended in the next fiscal year.

Excluding Grants:

Excluding grants, the Agency's final budget expenditures in the:

- General Fund was \$27,043 or 1.3% greater than the original budget.
- Special Education Fund was \$113,530 or 10.0% less than the original budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

REVENUES -- Actual prior year vs. Actual current year for the year ended June 30, 2006

General Fund:

	June 30 2006	June 30 2005	Variance	
			Amount	Percent
Non-Grants	\$ 1,674,234	\$ 1,526,680	\$ 147,554	9.66%
Grants	2,855,858	1,818,992	1,036,866	57.00%
Total	<u>\$ 4,530,092</u>	<u>\$ 3,345,672</u>	<u>\$ 1,184,420</u>	<u>35.40%</u>

Special Education Fund:

	June 30 2006	June 30 2005	Variance	
			Amount	Percent
Non-Grants	\$ 5,208,975	\$ 4,740,826	\$ 468,149	9.87%
Grants	3,928,704	5,379,539	(1,450,835)	(26.96%)
Total	<u>\$ 9,137,679</u>	<u>\$ 10,120,365</u>	<u>\$ (982,686)</u>	<u>(9.71%)</u>

Including Grants:

Including grants, the Agency's current year's final actual revenues differed from the prior year's actual revenues as follows:

- General Fund by \$1,184,420, a variance of 35.40% greater than last year's actual revenues.
- Special Education Fund by \$982,686 or 9.71% less than last year's actual revenues.

The increase in revenue for the General Fund can be attributed mainly to Grants and Property Taxes. In 05-06 MARESA was awarded as the Fiscal Agent of the State Performance Plan Grant. The significant decrease in revenue for the Special Education fund can be attributed mainly to Grants. In 04-05 MARESA was awarded the Fiscal Agent of the State improvement Grant, which account for \$3,098,884 (of which \$1,584,732 was carry over from 03-04) of MARESA's Special Ed Grant Revenue. In 05-06 the State improvement Grant budget was only \$2,052,844 (of which \$666,844 was carry over from 04-05). Other contributing factors to the Special Education revenue were increases in Property Taxes and State Aid.

Excluding Grants:

Excluding grants, the Agency's current year's final actual revenues differed from the prior year's actual revenues as follows:

- General Fund was \$1,674,234, which was \$147,554 or 9.66% greater than last year's actual revenues.
- Special Education Fund was \$5,208,975, which was \$468,149 or 9.87% greater than last year's actual revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

EXPENDITURES

The Agency's actual expenditures changed from last year as follows:

General Fund:

Description	June 30 2006	June 30 2005	Variance	
			Amount	Percent
Non-Grants	\$ 1,934,668	\$ 1,772,761	\$ 161,907	9.13%
Grants	2,206,278	1,323,222	883,056	66.73%
Total	<u>\$ 4,140,946</u>	<u>\$ 3,095,983</u>	<u>\$ 1,044,963</u>	<u>33.75%</u>

Special Education Fund:

Description	June 30 2006	June 30 2005	Variance	
			Amount	Percent
Non-Grants	\$ 996,346	\$ 1,002,730	\$ (6,384)	(0.63%)
Grants	2,984,617	3,416,544	(431,927)	(12.64%)
Total	<u>\$ 3,980,963</u>	<u>\$ 4,419,274</u>	<u>\$ (438,311)</u>	<u>(9.92%)</u>

Including Grants:

As indicated above, the Agency's current year's actual expenditures differed from the prior year's actual expenditures as follows:

- General Fund was \$1,044,963 or 33.75% greater than last year's actual expenditures.
- Special Education Fund was \$438,311 or 9.92% less than last year's actual expenditures.

The significant increase in expenditures for the General Fund and significant decrease in expenditures for the Special Education fund can be attributed mainly to Grants.

Excluding Grants:

Excluding grants, the Agency's final actual expenditures in the:

- General Fund was \$161,907 or 9.13% greater than last year's actual expenditures.
- Special Education Fund was \$6,384 or .63% less than last year's actual expenditures.

Long-Term Debt

The Agency's long-term debt decreased \$58,784 from \$2,196,385 to \$2,137,601 as detailed in the Notes to Financial Statements, Note F--Long-Term Debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

Capital Assets at Year-End (Net of Depreciation)

MARESA's net investment in capital decreased by \$243,144 to \$2,766,598 mainly as a result of depreciation. A detail of the net investment in capital assets is presented in the Notes to Financial Statements, Note C-- Capital Assets.

Capital Assets at Year-End (Net of Depreciation)

	Governmental Activities – 2006	Governmental Activities - 2005
Land	\$ 54,017	\$ 224,031
Building	2,630,598	2,687,682
Equipment	81,983	98,029
TOTALS	\$ 2,766,598	\$ 3,009,742

Currently Known Facts That May Have a Significant Impact on the Agency's Future

Currently there are no approved, planned, or unreported capital projects, commercial development; residential development; litigation; or approved debt that will have a material impact on Agency operations.

Contacting the Agency's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Agency's finances. If you have questions about this report or need additional information, contact the Business and Finance Office, of MARESA at:

321 E. Ohio Street
Marquette, MI 49855
(906) 226-5106

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 4,764,921
Investments	7,817
Receivables:	
Accounts receivable	176,233
Due from other governmental units	2,109,630
Notes receivable	-
Other current assets	<u>125,516</u>
TOTAL CURRENT ASSETS	<u>7,184,117</u>
Noncurrent assets:	
Land	224,031
Capital assets	2,896,800
Less accumulated depreciation	<u>(354,233)</u>
TOTAL NONCURRENT ASSETS	<u>2,766,598</u>
TOTAL ASSETS	<u>9,950,715</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	1,568,707
Accrued liabilities	329,962
Due to other governmental units	1,624,201
Deferred revenue	193,307
Accrued interest	14,168
Current portion of long term debt obligations	65,533
Other current liabilities	<u>15,545</u>
TOTAL CURRENT LIABILITIES	<u>3,811,423</u>
Noncurrent liabilities:	
Compensated absences	107,639
Bonds payable	2,029,962
Capital lease obligation	-
Current portion of long term obligations	<u>(65,533)</u>
TOTAL NONCURRENT LIABILITIES	<u>2,072,068</u>
TOTAL LIABILITIES	<u>5,883,491</u>
NET ASSETS:	
Invested in capital assets net of related debt	992,087
Unrestricted	<u>3,075,137</u>
TOTAL NET ASSETS	<u>\$ 4,067,224</u>

See Notes to Financial Statements.

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Statement of Activities
For the Year Ended June 30, 2006

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 977,684	\$ 25,723	\$ 2,023,642	\$ 1,071,681
Support services	6,703,319	249,343	4,160,187	(2,293,789)
Community services	479,373	251,336	283,942	55,905
Transfers to local districts	5,397,614	-	1,917,578	(3,480,036)
Capital outlay	179,149	-	-	(179,149)
Interest on retirement of debt	97,554	-	-	(97,554)
Depreciation- unallocated	81,794	-	-	(81,794)
TOTAL GOVERNMENTAL ACTIVITIES	13,916,487	526,402	8,385,349	(5,004,736)
General revenues:				
Taxes				
Property taxes, levied for general purposes				391,154
Property taxes, levied for special education				3,360,780
Specific ore taxes, levied for general purposes				3,051
Specific ore taxes, levied for special education				36,723
Other taxes				11,894
State aid not restricted to specific purposes				742,330
Grants and contributions not restricted to specific programs				2,215
Interest and investment earnings				180,025
Miscellaneous				242,803
TOTAL GENERAL REVENUES AND TRANSFERS				4,970,975
				CHANGES IN NET ASSETS
				(33,761)
Net Assets , July 1				4,100,985
			NET ASSETS, JUNE 30	\$ 4,067,224

See Notes to Financial Statements.

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Governmental Funds
Balance Sheet
June 30, 2006

	General Fund	Special Education Fund	Capital Projects Fund	Other Nonmajor Governmental Funds Debt Service Fund	Total
ASSETS:					
Cash and cash equivalents	\$ 1,237,790	\$ 2,575,124	\$ 545,940	\$ 122	\$ 4,358,976
Investments		1,633	1,472	-	3,105
Receivables:			-		
Accounts receivable	74,439	101,794	-	-	176,233
Due from other governmental units	849,740	1,259,890	-	-	2,109,630
Due from other funds	-	-	-	-	-
Other current assets	87,296	38,220	-	-	125,516
TOTAL ASSETS	\$ 2,249,265	\$ 3,976,661	\$ 547,412	\$ 122	\$ 6,773,460
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	\$ 295,866	\$ 1,272,841	\$ -	\$ -	\$ 1,568,707
Accrued liabilities	49,295	134,167	-	-	183,462
Due to other government units	-	1,624,201	-	-	1,624,201
Due to other funds	-	-	-	-	-
Deferred revenue	168,845	24,462	-	-	193,307
Other liabilities	15,545	-	-	-	15,545
TOTAL LIABILITIES	529,551	3,055,671	-	-	3,585,222
FUND BALANCES:					
Unreserved, reported in:					
General Fund	1,719,714				1,719,714
Special Education Fund		920,990			920,990
Capital Projects Fund			547,412		547,412
Debt Service Fund				122	122
TOTAL FUND BALANCES	1,719,714	920,990	547,412	122	3,188,238
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,249,265	\$ 3,976,661	\$ 547,412	\$ 122	\$ 6,773,460

See Notes to Financial Statements.

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

Total Fund Balances for Governmental Funds	\$	3,188,238
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

	Cost of capital assets	3,120,831
	Accumulated depreciation	<u>(354,233)</u>
		2,766,598

Internal service funds are used by the Agency to charge individual funds the cost of retirement and unemployment benefits. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.

264,157

Land contract was used by the Agency to finance the sale of the old administration building. The remaining amount due is recognized as a note receivable.

-

Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:

Compensated absences	107,639	
Bonds payable	2,029,962	
Capital lease obligation	-	
Accrued interest	<u>14,168</u>	
		<u>(2,151,769)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>4,067,224</u>
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MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006

	General Fund	Special Education Fund	Capital Projects Fund	Other Nonmajor Governmental Funds Debt Service Funds	Total
REVENUES:					
Property taxes	\$ 395,360	\$ 3,408,242	\$ -	\$ -	\$ 3,803,602
Other local sources	637,613	841,345	-	-	1,478,958
State sources	1,018,891	742,678	-	32,701	1,794,270
Federal sources	2,161,496	3,997,016	-	-	6,158,512
Interest	59,791	100,070	20,146	18	180,025
Other	256,941	48,328	-	-	305,269
TOTAL REVENUES	4,530,092	9,137,679	20,146	32,719	13,720,636
EXPENDITURES:					
Current:					
Instruction	140,399	776,833	-	-	917,232
Support services:					
Pupil services	304,356	1,307,687	-	-	1,612,043
Instructional staff services	1,311,053	471,203	-	-	1,782,256
General administration services	219,318	900	-	-	220,218
Business administration services	316,756	16,806	-	-	333,562
Operations and maintenance	163,297	13,115	-	-	176,412
Pupil transportation	-	2,024	-	-	2,024
Central services	344,006	1,346,378	-	-	1,690,384
Other support services	890,568	39	-	-	890,607
Community services	436,076	43,297	-	-	479,373
Debt Service:					
Principal	-	-	-	67,540	67,540
Interest	-	-	-	97,491	97,491
Capital outlay	15,117	2,681	-	-	17,798
TOTAL EXPENDITURES	4,140,946	3,980,963	-	165,031	8,286,940
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	389,146	5,156,716	20,146	(132,312)	5,433,696
OTHER FINANCING SOURCES (USES):					
Sale of assets	162,090	-	-	-	162,090
Transfers in	365,063	-	212,090	132,280	709,433
Transfers out	(294,370)	(365,063)	(50,000)	-	(709,433)
Transfers to local districts	(533,742)	(4,863,872)	-	-	(5,397,614)
TOTAL OTHER FINANCING SOURCES (USES)	(300,959)	(5,228,935)	162,090	132,280	(5,235,524)
SPECIAL ITEM:					
Payment on land contract	-	-	50,000	-	50,000
NET CHANGE IN FUND BALANCES	88,187	(72,219)	232,236	(32)	248,172
Fund Balance, July 1	1,631,527	993,209	315,176	154	2,940,066
FUND BALANCE, JUNE 30	\$ 1,719,714	\$ 920,990	\$ 547,412	\$ 122	\$ 3,188,238

See Notes to Financial Statements.

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	248,172
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

	Depreciation expense	(81,794)	
	Capital outlays net of retirements	<u>(161,351)</u>	(243,145)

Payment received on a land contract is revenue in governmental funds when received, but reduces the note receivable in the Statement of Net Assets.

(50,000)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

67,540

Repayment of capital lease obligation is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

4,187

Interest on long-term debt is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount of accrued interest recognized in the statement of activities.

(63)

In the Statement of Activities, certain operating expenses related to compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This is the amount paid leave exceeded the amount earned.

(12,943)

Internal service funds are used by the Agency to charge individual funds the cost of retirement and unemployment benefits. The net expense of the funds is reported with governmental activities.

(47,509)

Change in Net Assets of Governmental Activities

\$ (33,761)

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Proprietary Funds
Statement of Net Assets
June 30, 2006

			Governmental Activities:
	Retirement Fund	Unemployment Fund	Internal Service Funds
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 135,425	\$ 270,520	\$ 405,945
Investments	2,640	2,072	4,712
	<u>138,065</u>	<u>272,592</u>	<u>410,657</u>
TOTAL ASSETS			
LIABILITIES:			
Current liabilities:			
Accrued liabilities	146,500	-	146,500
	<u>146,500</u>	<u>-</u>	<u>146,500</u>
TOTAL LIABILITIES			
Net Assets			
Unrestricted	(8,435)	272,592	264,157
	<u>(8,435)</u>	<u>272,592</u>	<u>264,157</u>
TOTAL NET ASSETS	<u><u>\$ (8,435)</u></u>	<u><u>\$ 272,592</u></u>	<u><u>\$ 264,157</u></u>

See Notes to Financial Statements.

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006

			Governmental Activities:
	Retirement Fund	Unemployment Fund	Internal Service Funds
OPERATING REVENUES:			
Other	\$ -	\$ -	\$ -
TOTAL OPERATING REVENUES	<u>-</u>	<u>-</u>	<u>-</u>
OPERATING EXPENSES:			
Retirement benefits	87,070	-	87,070
Unemployment	-	-	-
Payroll taxes	-	-	-
TOTAL OPERATING EXPENSES	<u>87,070</u>	<u>-</u>	<u>87,070</u>
OPERATING INCOME (LOSS)	<u>(87,070)</u>	<u>-</u>	<u>(87,070)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest income	5,060	11,142	16,202
Transfers in (out)	23,359	-	23,359
TOTAL NON-OPERATING REVENUES	<u>28,419</u>	<u>11,142</u>	<u>39,561</u>
CHANGE IN NET ASSETS	<u>(58,651)</u>	<u>11,142</u>	<u>(47,509)</u>
Net Assets, July 1	50,216	261,450	311,666
NET ASSETS, JUNE 30	<u>\$ (8,435)</u>	<u>\$ 272,592</u>	<u>\$ 264,157</u>

See Notes to Financial Statements.

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2006

	<u>Governmental Activities Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from other operating revenues	\$ -
Cash payments to employees for services	<u>(24,570)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(24,570)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers in (out)	<u>23,359</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>23,359</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	16,202
(Purchase) sale of investments	<u>(180)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>16,022</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,811
Cash and cash equivalents, July 1	<u>391,134</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>405,945</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (87,070)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Increase (decrease) in accrued liabilities	<u>62,500</u>
TOTAL ADJUSTMENTS	<u>62,500</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (24,570)</u></u>

See Notes to Financial Statements.

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Agency Fund</u>
ASSETS:	
Cash and equivalents	\$ 9,355
Other	<u>-</u>
TOTAL ASSETS	<u><u>\$ 9,355</u></u>
LIABILITIES:	
Due to groups, organizations and activities	\$ 9,355
Other	<u>-</u>
TOTAL LIABILITIES	<u><u>\$ 9,355</u></u>

See Notes to Financial Statements.

MARQUETTE-ALGER REGIONAL EDUCATION SERVICE AGENCY

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Marquette-Alger Regional Education Service Agency (Agency) is an intermediate school district as defined by Michigan law that operates under a locally appointed seven-member Board form of government that provides educational and supportive services to the students of the thirteen local educational agencies and chartered schools within the counties of Marquette and Alger in the State of Michigan. The Agency also acts as a fiscal intermediary as mandated by various grantor agencies as defined in grant agreements.

The Agency's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Agency are discussed below:

Reporting Entity

In evaluating how to define the Agency for financial reporting purposes, management has considered the criteria included in GASB Statement No. 14 to determine if any legally separate entities are component units. Based upon the application of these criteria, the financial statements of the Agency contain all of the funds controlled by the Agency's Board of Education, as no other entity meets the criteria to be considered a component unit of the Agency nor is the Agency a component unit of another entity.

Basic Financial Statements – Government-Wide Statements

The Agency's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Agency's instruction, support, and community services are classified as governmental activities. The Agency does not have any business-type activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Agency's net assets are reported as investment in capital assets, net of related debt, and unrestricted.

The government-wide Statement of Activities reports both the gross and net cost of each of the Agency's functions. General government revenues (property taxes, state aid, etc.) support the functions. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants directly associated with the function.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The government-wide focus emphasizes the substantiability of the Agency as an entity and the change in the Agency's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the Agency are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, fund equity, revenues and expenditures/expenses.

The following fund types are used by the Agency:

Governmental Funds

The focus of the governmental funds' measurement is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Agency:

- **General Fund** – The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.
- **Special Education Fund** – The Special Education Fund is used to account for financial resources that provide special education services.
- **Capital Projects Fund** – The Capital Projects Fund is used to account for financial resources of major capital expenditures, including equipment.
- **Debt Service Fund** – The Debt Service Fund is used to accumulate resources for the periodic payment of interest and principal on long-term debt.

Proprietary Funds

The focus of proprietary funds' measurement is upon the determination of operating income, changes in net assets, financial position, and cash flows. The following is a description of the Proprietary Funds of the Agency:

- **Internal Service Funds** – Internal Service Funds are used to account for the financing of services provided by an activity to other departments, funds, or component units, if any, on a cost-reimbursement basis. The Agency uses two internal service funds to account for unemployment and retirement benefits.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support Agency programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The emphasis in fund financial statements is on the major funds. Non-major funds by category are summarized into a single column for presentation. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the governmental combined) for the determination of major funds.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The Agency's Internal Service Funds are presented in the Proprietary Funds' financial statements. Because the principal users of the services are the Agency's governmental activities, the financial statements are consolidated into the governmental activities column when presented in the government-wide financial statements.

The Agency's Fiduciary Fund is presented in the fund financial statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

Basis of Accounting

The basis of accounting refers to the point at which revenues and expenditures/expense are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Government activities in government-wide financial statements, and proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded susceptible to accrual; that is, both measurable and available. "Available" means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, except for principal and interest on general obligation debt, if any, is recognized when due.

Financial Statement Amounts

Cash and Cash Equivalents – The Agency has defined cash and cash equivalents to include cash on hand, demand deposits, and time deposits with an initial maturity of three months or less.

Investments – The Agency holds investments, where cost equals market value, in governmental mutual funds, and in the Michigan Liquid Asset Fund investment pool.

Capital Assets – Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical or estimated historical cost. Contributed assets, if any, are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significant extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

Buildings and Improvements	20 – 50 Years
Furniture and Fixtures	5 – 10 Years
Vehicles	8 Years

General capital assets are those not reported in proprietary funds, and generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the Government-Wide Statement of Net Assets, but are reported in the fund financial statements as capital outlay expenditures.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Accrued Liabilities and Long-Term Obligations – Payables and accrued liabilities that will be paid from governmental funds are reported on governmental fund financial statements regardless of whether they will be liquidated with current financial resources. The non-current portion of capital leases and compensated absences, that will be paid from governmental funds are reported as a liability in fund financial statements only to the extent that they will be paid with current, expendable, available financial resources (generally, within sixty days of year-end). Bonds and other non-current liabilities that will be paid from governmental funds are not recognized as a liability in fund financial statements until due.

Deferred Revenue – In the Agency-wide statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable. The Agency has reported deferred revenue of \$168,845 in the General Fund and \$24,462 in the Special Education Fund for grant funding that has been received but is unearned and delinquent property taxes receivable.

Net Assets – Net Assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted only when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or other government regulation.

Interfund Activity – As a general rule, the effect of interfund activity has been eliminated from the Agency-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned. In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Special Items – Special items are transactions or events that are within the control of the Agency, and that are either unusual in nature or infrequent in occurrence.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Process – The Agency follows budgetary process prescribed by provisions of the State of Michigan Uniform Budgeting and Accounting Act, and entails the preparation of budgetary documents within an established timetable. All funds are legally required to be budgeted and appropriated with the exception of fiduciary funds. The legal level of budgetary control has been established at the functional level with modifications made only by a resolution of the Board. At the close of each year, budget appropriations lapse.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government and fiduciary funds from the Statement of Net Assets.

	Primary Government	Fiduciary Funds	Total
Unrestricted:			
Cash and equivalents	\$4,764,921	\$9,355	\$4,774,276
Investments	7,817	-	7,817
Restricted:			
Cash and equivalents	-	-	-
Investments	-	-	-
	<u>\$4,772,738</u>	<u>\$9,355</u>	<u>\$4,782,093</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. State law does not require and the Agency does not have a deposit policy for custodial credit risk. The carrying amounts of the Agency's deposits with financial institutions were \$4,774,276 and the bank balance was \$5,288,010. The bank balance is categorized as follows:

Amount insured by the FDIC	\$ 188,478
Amount uncollateralized and uninsured	5,099,532
	<u>\$ 5,288,010</u>

Investments

As of June 30, 2006, the Agency had the following investments.

Investment Type	Fair Value	Investment Maturities Less than 1 year
Michigan Liquid Asset Fund – mutual funds	<u>\$7,817</u>	<u>\$7,817</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Agency's investments. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the Agency to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

The Agency has no investment policy that would further limit its investment choices and has no investments for which ratings are required. The Agency's investments are in accordance with statutory authority.

NOTE C – CAPITAL ASSETS:

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Non-Depreciated Capital Assets:				
Land	\$224,031	\$ -	\$ 170,014	\$54,017
Subtotal	224,031	-	170,014	54,017
Other Capital Assets:				
Building	2,854,178	-	-	2,854,178
Equipment	203,972	8,664	-	212,636
Subtotal	3,058,150	8,664	-	3,066,814
Total Capital Assets	3,282,181	8,664	170,014	3,120,831
Accumulated Depreciation:				
Building	(166,496)	(57,084)	-	(223,580)
Equipment	(105,943)	(24,710)	-	(130,653)
Subtotal	(272,439)	(81,794)	-	(354,233)
NET CAPITAL ASSETS	\$3,009,742	\$(73,130)	\$170,014	\$2,766,598

Depreciation expense was not allocated to specific governmental functions and it appears on the Statement of Activities as unallocated.

NOTE D – FUND MODIFICATIONS (TRANSFER TO/FROM OTHER FUNDS):

Interfund transfers are included under "Other Financing Sources (Uses)" in fund financial statements to identify amounts transferred between funds during the year ended June 30, 2006, as well as for interfund charges for services.

Amounts transferred to and from various individual funds during the year ended June 30, 2006, are as follows:

Fund	Transfers to Other Funds	Fund	Transfers from Other Funds
General Fund	\$294,370	General Fund	\$365,063
Special Education	365,063	Capital Projects Fund	212,090
Capital Projects Fund	50,000	Debt Service Fund	132,280
Total	\$709,433	Total	\$709,433

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to Debt Service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE E – TERMINAL LEAVE:

Upon retirement from the Agency and upon simultaneously becoming eligible for benefits from the Michigan Public School Employees' Retirement System, the Agency shall pay to certain eligible employee's terminal leave benefits based upon various labor and union contract terms or administrative policies. These funds are accrued in the Terminal Leave Fund, which is an Internal Service Fund, as accrued liabilities to meet this obligation. The balance at June 30, 2006 is \$146,500.

NOTE F – LONG-TERM DEBT:

A summary of the changes in long-term debt for the year ended June 30, 2006, is as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Governmental Activities General				
Long-Term Debt:				
School Building and Site Bonds, Series 2002	\$1,800,000	\$ -	\$45,000	\$1,755,000
School Improvement Bond, Series 1998	297,502	-	22,540	274,962
Capital lease obligation	4,187	-	4,187	-
Compensated absences	94,696	12,943	-	107,639
Total	<u>\$2,196,385</u>	<u>\$12,943</u>	<u>\$71,727</u>	<u>\$2,137,601</u>

The annual debt service requirements to maturity, including both principal and interest, for the non-current liabilities (excluding compensated absences) are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$68,608	\$94,097	\$162,705
2008	74,738	90,903	165,641
2009	75,916	87,425	163,341
2010	82,149	83,892	166,041
2011	83,442	80,068	163,510
2012-2016	485,109	378,635	863,744
2017-2021	450,000	246,420	696,420
2022-2026	585,000	121,750	706,750
2027	125,000	6,250	131,250
Total	<u>\$2,029,962</u>	<u>\$1,189,440</u>	<u>\$3,219,402</u>

SCHOOL IMPROVEMENT BOND, SERIES 1998

The Agency participated in the School Improvement Bond, Series 1998, to obtain one-half of their allocation of the statewide Durant Settlement. As part of the settlement, the Agency will receive one-half of their total settlement of \$931,342 over a ten-year period. The other half of the settlement was received through bond proceeds obligated to the Agency. The debt service requirements of the bonds funded through annual state aid payments are repaid over a fifteen -year period that began May 15, 1999. A schedule of the Agency's remaining bond repayment requirements are as follows:

NOTE F – LONG-TERM DEBT (Continued):

Year Ended June 30	Governmental Activities Durant Bonds		
	Principal	Interest	Total
2007	\$23,608	\$9,087	\$32,695
2008	24,738	7,963	32,701
2009	25,916	6,785	32,701
2010	27,149	5,552	32,701
2011	28,442	4,259	32,701
2012-2013	145,109	41,904	187,013
Total	<u>\$274,962</u>	<u>\$75,550</u>	<u>\$350,512</u>

SCHOOL BUILDING AND SITE BONDS, SERIES 2002

The Agency obtained general obligation bonds in the amount to \$1,900,000 for the purchase and renovation of a new instructional and administration building. The interest, payable semiannually on May 1 and November 1 of each year, ranges from 4.60 percent to 5.00 percent. Principal is payable in varying amounts on May 1. Bonds maturing after 2011 are eligible for redemption. The Agency's remaining bond repayment requirements are as follows:

June 30	Governmental Activities General Obligation			
	November 1	May 1		Total
	Interest	Principal	Interest	
2007	\$42,505	\$45,000	\$42,505	\$130,010
2008	41,470	50,000	41,470	132,940
2009	40,320	50,000	40,320	130,640
2010	39,170	55,000	39,170	133,340
2011	37,905	55,000	37,905	130,810
2012 – 2016	168,365	340,000	168,365	676,730
2017 – 2021	123,210	450,000	123,210	696,420
2022 – 2026	60,875	585,000	60,875	706,750
2027 – 2028	3,125	125,000	3,125	131,250
Total	<u>\$556,945</u>	<u>\$1,755,000</u>	<u>\$556,945</u>	<u>\$2,868,890</u>

CAPITAL LEASE OBLIGATION

The Agency financed the purchase of a voice mail system using an installment purchase agreement that requires forty-eight monthly payments of \$380, including interest at 15.89%. The \$13,949 cost of the equipment and its \$3,953 of accumulated amortization are included in the Government-Wide Statement of Net Assets as a capital asset. The capital lease obligation was paid off during the fiscal year 2005/2006.

NOTE G – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

The Agency contributes to the Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor, and disability benefits to public school employees. Eligibility and benefit provisions are governed under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information.

The annual report may be obtained by writing to the Department of Management and Budget, Office of Retirement Systems, P.O. Box 30171, Lansing, Michigan 48909-7671, or by calling (517) 322-5103.

The Agency is required by state statute to contribute 14.87 percent of covered payroll from July 1, 2004 to September 30, 2005, and 16.34 percent from October 1, 2005 to June 30, 2006. Contributions to MPERS are determined on an actuarial basis using the entry age normal actuarial cost method. Contribution requirements of plan members including the Agency are established and may be amended only by state statute. The Agency's contributions to MPERS for the years ending June 30, 2006, 2005, 2004, and 2003 were \$524,359, \$414,917; \$359,982; and \$355,497, respectively. Required contributions payable at June 30, 2006, 2005, 2004, and 2003, of \$23,587, \$17,613; \$16,755; and \$22,340, respectively, were remitted after year-end.

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9 percent. Members first hired January 1, 1990, or later and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Basic Plan members make no contributions. Contributions collected and remitted by the School Agency on behalf of MIP members for the years ending June 30, 2006, 2005, 2004, and 2003, were \$101,661, \$87,475; \$86,323; and \$83,897, respectively, equal to the required contributions for each year.

Other Post-Employment Benefits

In addition to the pension benefits, MPERS provides comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPERS is factored into the pension contribution rate.

NOTE H – PROPERTY TAXES:

The taxable value of real and personal property located in the Agency's geographic area at December 1, 2005, totaled \$1,746,560,531 representing approximately 50 percent of the estimated current value. The tax levy for the year was based on mileage rates of .2123 mills for general education and 1.80840 mills for special education (one mill is equal to \$1.00 per \$1,000 of taxable value).

NOTE I – RISK ASSESSMENT MANAGEMENT:

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency, together with approximately 334 other school districts in the State, participates in the MASB-SEG Property/Casualty Pool, Inc., (Pool), a governmental group property and casualty self-insurance pool. The Agency pays an annual premium to the Pool for its general insurance, workers' compensation, and errors and omissions coverage. Members' contributions to the Pool in excess of claim losses, expenses, and other costs may be refunded. The Pool may assess members a supplemental assessment in the event of deficiencies.

The Pool limits the maximum net loss that may arise from large risks or risks in concentrated areas of exposure by reinsuring certain levels of risk with other insurers or re-insurers. The Agency's comprehensive and fleet insurance coverage is limited to a maximum of \$5,000,000 per occurrence for all claims. The Pool is responsible for paying costs up to the insurance limits with any additional costs covered by the Agency.

The Agency estimates that the amount of actual or potential claims, if any, against the Agency as of June 30, 2006, exceeding the risk pools' coverage, is not material to the basic financial statements. Therefore, no provision for estimated claims is recognized.

NOTE J – NOTE RECEIVABLE:

The Agency entered into a land contract to sell the former administration building in the amount of \$625,000. Upon the execution of a land contract in June 2002, the Agency received a payment of \$400,000 toward the cost of the building. No interest is payable on the remaining outstanding balance of the land contract. The remaining amount due for the building of \$50,000 was received in the year ended June 30, 2006.

NOTE K – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2006 as follows:

	<u>Governmental Activities</u>
Accrued wages	\$ 144,350
Accrued fringes	185,612
	<u>\$ 329,962</u>

REQUIRED SUPPLEMENTARY INFORMATION

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Property taxes	\$ 405,866	\$ 402,823	\$ 395,360	\$ (3,043)	\$ (7,463)
Other local sources	110,767	1,044,788	637,613	934,021	(407,175)
State sources	832,433	1,080,506	1,018,891	248,073	(61,615)
Federal sources	365	3,400,860	2,161,496	3,400,495	(1,239,364)
Interest	27,000	59,000	59,791	32,000	791
Other sources	190,481	259,612	256,941	69,131	(2,671)
TOTAL REVENUES	1,566,912	6,247,589	4,530,092	4,680,677	(1,717,497)
EXPENDITURES:					
Instruction	64,022	162,245	140,399	(98,223)	21,846
Support services:					
Pupil services	53,338	365,206	304,356	(311,868)	60,850
Instructional staff services	647,268	1,547,570	1,311,053	(900,302)	236,517
General administration services	244,531	231,581	219,318	12,950	12,263
Business administration services	351,912	333,384	316,756	18,528	16,628
Pupil transportation	100	-	-	100	-
Operations and maintenance	173,574	179,961	163,297	(6,387)	16,664
Central services	335,294	362,132	344,006	(26,838)	18,126
Other support services	250	1,889,053	890,568	(1,888,803)	-
Total Support Services	1,806,267	4,908,887	3,549,354	(3,102,620)	1,359,533
Community Services	92,750	549,540	436,076	(456,790)	113,464
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay	20,900	15,686	15,117	5,214	569
TOTAL EXPENDITURES	1,983,939	5,636,358	4,140,946	(3,652,419)	1,495,412
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(417,027)	611,231	389,146	1,028,258	(222,085)
OTHER FINANCING SOURCES (USES):					
Sale of assets	-	162,090	162,090	-	-
Transfers in (out)	338,019	90,041	70,693	(247,978)	(19,348)
Transfers to local districts	(26,355)	(709,303)	(533,742)	(682,948)	175,561
TOTAL OTHER FINANCING SOURCES (USES)	311,664	(457,172)	(300,959)	(930,926)	156,213
NET CHANGE IN FUND BALANCE	(105,363)	154,059	88,187	97,332	(65,872)
Fund Balance, July 1	1,631,527	1,631,527	1,631,527	-	-
FUND BALANCE, JUNE 30	\$ 1,526,164	\$ 1,785,586	\$ 1,719,714	\$ 97,332	\$ (65,872)

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Special Education Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Property taxes	\$ 3,458,634	\$ 3,443,376	\$ 3,408,242	\$ (15,258)	\$ (35,134)
Other local sources	621,965	722,115	841,345	100,150	119,230
State sources	668,575	740,519	742,678	71,944	2,159
Federal sources	29,945	5,370,742	3,997,016	5,340,797	(1,373,726)
Interest	40,000	90,000	100,070	50,000	10,070
Other sources	57,373	48,795	48,328	(8,578)	(467)
TOTAL REVENUES	4,876,492	10,415,547	9,137,679	5,539,055	(1,277,868)
EXPENDITURES:					
Instruction	449,343	822,744	776,833	(373,401)	45,911
Support services:			-		
Pupil services	363,818	1,367,225	1,307,687	(1,003,407)	59,538
Instructional staff services	380,386	812,103	471,203	(431,717)	340,900
General administration services	-	1,900	900	(1,900)	1,000
Business administration services	12,140	15,360	16,806	(3,220)	(1,446)
Pupil transportation	2,000	12,349	13,115	(10,349)	(766)
Operations and maintenance	4,800	2,000	2,024	2,800	(24)
Central services	-	1,997,920	1,346,378	(1,997,920)	651,542
Other support services	-	41	39	(41)	2
Total Support Services	763,144	4,208,898	3,158,152	(3,445,754)	1,050,746
Community Services	6,000	78,731	43,297	(72,731)	35,434
Capital outlay	35,000	6,463	2,681	28,537	3,782
TOTAL EXPENDITURES	1,253,487	5,116,836	3,980,963	(3,863,349)	1,135,873
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,623,005	5,298,711	5,156,716	1,675,706	(141,995)
OTHER FINANCING SOURCES (USES):					
Transfers in (out)	(102,419)	(384,211)	(365,063)	(281,792)	19,148
Transfers to local districts	(2,755,670)	(3,849,815)	(4,863,872)	(1,094,145)	(1,014,057)
TOTAL OTHER FINANCING SOURCES (USES)	(2,858,089)	(4,234,026)	(5,228,935)	(1,375,937)	(994,909)
NET CHANGE IN FUND BALANCE	764,916	1,064,685	(72,219)	299,769	(1,136,904)
Fund Balance, July 1	993,209	993,209	993,209	-	-
FUND BALANCE, JUNE 30	\$ 1,758,125	\$ 2,057,894	\$ 920,990	\$ 299,769	\$ (1,136,904)

OTHER INFORMATION

SCHEDULE OF FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS
MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
YEAR ENDED JUNE 30, 2006

Program Title/ Grant Number Subrecipient Name	Fed CFDA #	MARESA Program #	Subrecipient Award/ Contract Amount	Due to (From) Subrecipients 6/30/2005	Subrecipient Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Trans to Recipients	Due to (From) Subrecipients 6/30/2006	Adjustments
Title V 2004-05									
Proj 050250/0405	84.298	11-0-394150							
Passed thru to:									
Delta-Schoolcraft ISD			2,794.00	2,794.00	2,794.00		2,794.00		
Dickinson-Iron ISD			2,403.00			2,403.00	2,403.00		
Menominee ISD			1,293.00			1,293.00	1,293.00		
Total Passed to Subrecipients			6,490.00	2,794.00	2,794.00	3,696.00	6,490.00		
Title V 2005-06									
Proj 060250/0506	84.298	11-0-394160							
Passed thru to:									
Delta-Schoolcraft ISD			1,360.00			1,360.00	1,360.00		
Dickinson-Iron ISD			1,159.00						
Menominee ISD			629.00						
Total Passed to Subrecipients			3,148.00			1,360.00	1,360.00		
Perkins 05-06									
Proj 063520/6012-02	84.048A	11-0-414160							
Passed thru to:									
Gwin			5,769.00			5,769.00	5,769.00		
Ishpeming			5,324.00			5,324.00		5,324.00	
Marquette			20,474.00			20,474.00	20,474.00		
Munising			4,196.00			4,196.00	4,196.00		
Negaunee			12,243.00			12,243.00	12,243.00		
NICE			11,929.00			11,929.00		11,929.00	
Superior Central			1,675.00			1,675.00		1,675.00	
Total Passed to Subrecipients			61,610.00			61,610.00	42,682.00	18,928.00	
Tech Prep 05-06									
Proj 063540/6014-02	84.243A	11-0-414260							
Passed thru to:									
Bay De Noc Community College			12,985.00			12,985.00	12,985.00		
Delta-Schoolcraft ISD			29,592.00			29,592.00	5,451.24	24,140.76	
Dickinson-Iron ISD			16,144.00			16,144.00	4,158.36	11,985.64	
Menominee ISD									
Total Passed to Subrecipients			58,721.00			58,721.00	22,594.60	36,126.40	

**SCHEDULE OF FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS
MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
YEAR ENDED JUNE 30, 2006**

Program Title/ Grant Number Subrecipient Name	Fed CFDA #	MARESA Program #	Subrecipient Award/ Contract Amount	Due to (From) Subrecipients 6/30/2005	Subrecipient Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Trans to Recipients	Due to (From) Subrecipients 6/30/2006	Adjustments
Tech Prep 04-05									
Proj 053540/5014-02	84.243A	11-0-414250							
Passed thru to:									
Bay De Noc Community College			12,607.00	2,986.00	12,607.00		2,986.00		
Delta-Schoolcraft ISD			28,732.00	6,798.72	28,732.00		6,798.72		
Dickinson-Iron ISD			15,573.00		15,573.00				
Total Passed to Subrecipients			56,912.00	9,784.72	56,912.00		9,784.72		
Entrepreneurship Curr Dev 04-05									
Proj 650 W02-01	17.267	11-0-464150							
Passed thru to:									
Bay De Noc Community College									
Bay College			7,992.00			7,992.00	7,992.00		
Copper Country ISD			3,635.00			3,635.00	3,635.00		
Delta-Schoolcraft ISD			19,238.00	4,791.03	4,791.03	14,446.97	19,238.00		
Dickinson-Iron ISD			19,176.00	6,513.99	6,513.99	12,662.01	19,176.00		
Eastern UP ISD			7,250.00			7,250.00	7,250.00		
Ewen-Trout Creek Consolidated			900.00			900.00	900.00		
Finlandia University			4,090.00			4,090.00	4,090.00		
Gogebic Community College			10,930.00			10,930.00	10,930.00		
Gogebic-Ontonagon ISD			9,610.00			9,610.00	9,610.00		
Ironwood Area Schools			900.00			900.00	900.00		
Ishpeming			900.00			900.00	900.00		
Ishpeming-Negaunee-Nice Comm.			964.00			964.00	964.00		
Lake Superior State University			6,790.00	2,706.64	2,706.64	4,083.36	6,790.00		
Michigan Technical University									
NICE			1,800.00			1,800.00	1,800.00		
Negaunee			600.00			600.00	600.00		
Northern Michigan University			7,716.80			7,716.80	7,716.80		
Ontonagon Area Schools			887.00			887.00	887.00		
Total Passed to Subrecipients			103,378.80	14,011.66	14,011.66	89,367.14	103,378.80		

**SCHEDULE OF FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS
MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY**

YEAR ENDED JUNE 30, 2006

Program Title/ Grant Number Subrecipient Name	Fed CFDA #	MARESA Program #	Subrecipient Award/ Contract Amount	Due to (From) Subrecipients 6/30/2005	Subrecipient Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Trans to Recipients	Due to (From) Subrecipients 6/30/2006	Adjustments
Safe & Drug Free Schools (7/1/05-6/30/06)	84.186A	11-0-614160							
Prof 062860/0506									
Passed thru to:									
Autrain-Onota			55.00			55.00	55.00		
Bark River-Harris			1,543.00			1,543.00	1,543.00		
Big Bay de Noc			967.00			967.00	967.00		
Brietung			3,438.00			3,438.00	3,438.00		
Burt			203.00			203.00	203.00		
Escanaba Area Schools			7,639.00			7,639.00	7,639.00		
Forest Park			1,417.00			1,417.00	1,417.00		
Gladstone			3,289.00			3,289.00	3,289.00		
Gwinn			4,156.00			4,156.00	4,156.00		
Iron Mountain			3,176.00			3,176.00	3,176.00		
Ishpeming			2,810.00			2,810.00	2,810.00		
Manistique			3,377.00			3,377.00	3,377.00		
Marquette			8,522.00			8,522.00	8,522.00		
Menominee			4,016.00			4,016.00	4,016.00		
Mid Peninsula			1,027.00			1,027.00	1,027.00		
Munising			1,942.00			1,942.00	1,942.00		
Nah Tah Wahsh PSA			150.00			150.00	150.00		
Negaunee			3,095.00			3,095.00	3,095.00		
NICE			2,235.00			2,235.00	2,235.00		
North Central			1,023.00			1,023.00	1,023.00		
North Dickinson			974.00			974.00	974.00		
North Star Academy			286.00			286.00	286.00		
Norway-Vulcan			1,716.00			1,716.00	1,716.00		
Powell			215.00			215.00	215.00		
Rapid River			941.00			941.00	941.00		
Republic-Michigamme			482.00			482.00	482.00		
Stephenson			2,070.48			2,070.48		2,070.48	
Superior Central			1,237.00			1,237.00	1,237.00		
Wells			28.00			28.00	28.00		
West Iron County			3,545.00			3,545.00	3,545.00		
Total Passed to Subrecipients			65,574.48			65,574.48	63,504.00	2,070.48	

**SCHEDULE OF FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS
MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
YEAR ENDED JUNE 30, 2006**

Program Title/ Grant Number Subrecipient Name	Fed CFDA #	MARESA Program #	Subrecipient Award/ Contract Amount	Due to (From) Subrecipients 6/30/2005	Subrecipient Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Trans to Recipients	Due to (From) Subrecipients 6/30/2006	Adjustments
LEA Medicaid Outreach									
Proj *****	93.778	22-0-194100							
Passed thru to:									
Autrain-Onola									
Burt									
Gwinn									
Ishpeming									
Marquette									
Munising									
Negaunee									
NICE									
Northstar									
Republic-Mich									
Superior Central									
Wells									
Total Passed to Subrecipients									
LEA Medicaid FFS-Transportation									
Proj *****	93.778	22-0-194200							
Passed thru to:									
Autrain-Onola					490.00				
Burt									
Gwinn			527.12		1,379.39	527.12	527.12		
Ishpeming			6,662.09		6,647.46	6,662.09	6,662.09		
Marquette			6,585.67		7,328.36	6,585.67	6,585.67		
Munising			432.99		517.22	432.99	432.99		
Negaunee			1,236.34		3,296.23	1,236.34	1,236.34		
NICE			2,526.08		1,654.98	2,526.08	2,526.08		
Northstar									
Powell									
Republic-Mich									
Superior Central									
Wells									
Total Passed to Subrecipients			17,970.29		21,313.64	17,970.29	17,970.29		

\$43,072.80 Received this year.....recorded payable to LEA's.....no actual transfer to them until backcasting is complete.

**SCHEDULE OF FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS
MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
YEAR ENDED JUNE 30, 2006**

Program Title/ Grant Number Subrecipient Name	Fed CFDA #	MARESA Program #	Subrecipient Award/ Contract Amount	Due to (From) Subrecipients 6/30/2005	Subrecipient Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Trans to Recipients	Due to (From) Subrecipients 6/30/2006	Adjustments
Flow Through									
Proj 060450/0506	84.027A	22-0-714160							
Passed thru to:									
Autrain			1,515.43			1,515.43			
Burt			3,125.39			119.39	3,006.00		
Gwinn			60,952.37			4,853.37	56,099.00		
Ishpeming			43,627.99			1,976.15	41,651.84		
Marquette			154,108.61			116,651.24	37,457.37		
Munising			54,386.07			28,002.85	26,383.22		
Negaunee			61,077.10			43,196.01	17,881.09		
NICE			53,409.43			1,890.43	51,519.00		
Northstar			2,469.30			121.30	2,348.00		
Powell			2,433.79			148.79	2,285.00		
Republic-Mich			6,905.57			6,905.57			
Superior Central			16,453.69			1,136.21	15,317.48		
Wells			1,994.00			1,994.00	1,994.00		
Total Passed to Subrecipients			462,458.74			462,458.74	206,516.74	255,942.00	
Flow Through 04-05 (7/1/04-6/30/05)									
Proj 050450/0405	84.027A	22-0-714150							
Passed thru to:									
Autrain			1,956.81		1,956.81				
Burt			5,002.76		5,002.76				
Gwinn			115,132.39	1,351.32	115,132.39		1,351.32		
Ishpeming			68,091.79		68,091.79				
Marquette			245,107.30		245,107.30				
Munising			104,416.55		104,416.55				
Negaunee			88,158.91	28,868.82	88,158.91		28,868.82		
Northstar			4,088.91		4,088.91				
NICE			74,097.00	3,965.61	74,097.00		3,965.61		
Powell			3,602.65		3,602.65				
Republic-Mich			27,996.28		27,996.28				
Superior Central			40,922.06	38,839.00	40,922.06		38,839.00		
Wells			575.52		575.52				
Total Passed to Subrecipients			779,148.93	73,024.75	779,148.93		73,024.75		

**SCHEDULE OF FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS
MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
YEAR ENDED JUNE 30, 2006**

Program Title/ Grant Number Subrecipient Name	Fed CFDA #	MARESA Program #	Subrecipient Award/ Contract Amount	Due to (From) Subrecipients 6/30/2005	Subrecipient Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Trans to Recipients	Due to (From) Subrecipients 6/30/2006	Adjustments
Preschool 2004-05 (7/1/04-6/30/05)	84.173A	22-0-714550							
Proj 050460-0405									
Passed thru to:									
Autrain			153.51		153.51				
Gwinn			1,275.88	163.49	1,163.49	163.49			
Ishpeming			1,112.39		1,112.39				
Marquette			1,000.00			1,000.00	1,000.00		
Munising			1,000.00			1,000.00	1,000.00		
Negaunee			1,000.00		1,000.00				
NICE			1,000.00		1,000.00				
Total Passed to Subrecipients			6,541.78	163.49	4,429.39	2,000.00	2,163.49		
Preschool 2005-06 (7/1/05-6/30/06)									
Proj 060460-0506	84.173A	22-0-714560							
Passed thru to:									
Gwinn			1,000.00			1,000.00	1,000.00	1,000.00	
Ishpeming			1,000.00			1,000.00			
Marquette									
Munising			1,000.00			1,000.00	1,000.00		
Negaunee			1,000.00			1,000.00	1,000.00	1,000.00	
NICE			1,000.00			1,000.00	1,000.00		
Total Passed to Subrecipients			5,000.00			5,000.00	3,000.00	2,000.00	
Personnel Development 05/06									
Proj 060470-1D33	84.027A	22-0-744360							
Passed thru to:									
Bad Axe Public Schools									
Bay City Public Schools									
Bedford Public Schools									
Berkley School District									
Calendonia Community Schools									
Calhoun ISD									
Center Line Public Schools									
Cheboygan Area Schools									
Comstock Public Schools									
CrossRoads Charter Academy									
Dearborn Academy									
Dearborn Public Schools									
Eaton Rapids Public Schools			8,826.87			8,826.87	8,826.87		

YEAR ENDED JUNE 30, 2006

[illegible]

**SCHEDULE OF FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS
MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
YEAR ENDED JUNE 30, 2006**

Program Title/ Grant Number Subrecipient Name	Fed CFDA #	MARESA Program #	Subrecipient Award/ Contract Amount	Due to (From) Subrecipients 6/30/2005	Subrecipient Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Trans to Recipients	Due to (From) Subrecipients 6/30/2006	Adjustments
Waterford School District			17,416.00			17,416.00	17,416.00		
West Bloomfield School District									
West Ottawa Public Schools			9,415.52			9,415.52	9,415.52		
Williamston Community Schools									
Wyoming Public Schools									
MAASE									
MASSW									
Northern Michigan University			725.00			725.00	725.00		
State-wide Spec Ed Parent Conf									
West Michigan Inclusion Network									
Michigan Council for Exempt Children			5,000.00			5,000.00	5,000.00		
Total Passed to Subrecipients			82,541.39			82,541.39	81,938.39	603.00	
Personnel Development 04-05 (7/1/04-6/30/05)									
Proj 050470-1D33	84.027A	22-0-744350							
Passed thru to:									
Armada Area Schools			4,993.00		4,993.00				
Baldwin Community Schools			2,793.00		2,793.00				
Calhoun ISD			4,895.03		4,895.03				
Capac Community School			5,000.00		5,000.00				
Carson City - Crystal Middle			4,080.00		4,080.00				
Carson City - Crystal High			4,078.42		4,078.42				
COP ISD			5,000.00		5,000.00				
Clarkston Community Schools			4,512.00		4,512.00				
Clinton County RESA			5,830.00		5,830.00				
Comstock Public Schools	#04-109		4,812.70	4,812.70	4,812.70		4,812.70		
Comstock Public Schools (3yr)	#02-107		4,999.85	4,999.85	4,999.85		4,999.85		
Comstock Park Public Schools	#04-068		4,439.00	4,439.00	4,439.00		4,439.00		
Crossroads Charter Academy			5,000.00	5,000.00	5,000.00		5,000.00		
East China - Gearing Elementary			4,861.44		4,861.44				
Grand Ledge - Delta Center Elem			5,000.00		5,000.00				
Greenville Public Schools			4,825.99		4,825.99				
Harrison Community Schools			289.39			289.39	289.39		
Hartland Consolidated Schools			3,690.00		3,690.00				
Hedke Elementary Schools			4,318.27		4,318.27				
Holly Academy			5,000.00		5,000.00				
Howell Public Schools	#04-033		4,988.00		4,988.00				
Howell Public - Laitson RD Elem	#04-035		4,850.00	1,150.00	4,850.00		1,150.00		
Howell Public - Voyager Elem	#04-038/9		4,766.03	976.95	4,766.03		976.95		

**SCHEDULE OF FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS
MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
YEAR ENDED JUNE 30, 2006**

Program Title/ Grant Number Subrecipient Name	Fed CFDA #	MARESA Program #	Subrecipient Award/ Contract Amount	Due to (From) Subrecipients 6/30/2005	Subrecipient Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Trans to Recipients	Due to (From) Subrecipients 6/30/2006	Adjustments
Howell Public - Southeast Elem	#04-040		1,030.70		1,030.70				
Howell Public - Freshman Campus	#04-042		9,650.00	9,650.00	9,650.00		9,650.00		
Huron Valley ISD			500.00		500.00				
Iron Mountain High School			1,887.94		1,887.94				
Kentwood Public Schools			5,000.00		5,000.00				
Lakeview Community Schools			5,000.00		5,000.00				
Lincoln Park Public Schools			4,311.00		4,311.00				
Ludington Area Schools			3,500.00		3,500.00				
Mason County Eastern Schools			5,000.00		5,000.00				
Mecosta-Oshtemo ISD			5,000.00		5,000.00				
Millington Community Schools			5,000.00		5,000.00				
Monroe County ISD			4,952.00		4,920.00				
Montcalm ISD			5,000.00		5,000.00				
Morley Stanwood Community			5,000.00		5,000.00				
Lapeer Community Schools			2,280.00		2,280.00				
NICE Community Schools			5,000.00		5,000.00				
Plainwell Community Schools			4,965.00		4,965.00				
Pontiac School District									
Redford Union Schools									
Remus Elementary			4,999.38		4,999.38				
St. Clair County ISD			5,000.00		5,000.00				
Traverse Bay Area ISD			11,959.00		11,959.00				
Traverse City Area Schools									
Tri City Area Schools- 04-006			5,000.00		5,000.00				
Tri City Area Schools- 04-056			4,391.00		4,391.00				
Van Buren ISD			5,000.00		5,000.00				
Vestaburg Community School			4,443.85		4,443.85				
Walled Lake Schools			4,950.00		4,950.00				
Wayne-Westland Schools			5,000.00		5,000.00				
West Bloomfield School District			5,000.00		5,000.00				
MI Council - Exceptional Children			5,000.00		5,000.00				
Northern Michigan University			725.00		725.00				
MI Rehab. Conference			5,000.00		5,000.00				
MAASE			6,000.00		3,000.00	3,000.00	3,000.00		
West MI Inclusion Network									
Total Passed to Subrecipients			248,566.99	31,028.50	245,245.60	3,289.39	34,317.89		

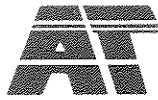
**SCHEDULE OF FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS
MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
YEAR ENDED JUNE 30, 2006**

Program Title/ Grant Number	Fed CFDA #	MARESA Program #	Subrecipient Award/ Contract Amount	Due to (From) Subrecipients 6/30/2005	Subrecipient Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Trans to Recipients	Due to (From) Subrecipients 6/30/2006	Adjustments
State Improvement Grant (07/01/05-08/31/06)	84.323A	22-0-744460							
Proj 060620/03001									
Passed thru to:									
Allegan County ISD									
Beck Evaluation & Testing									
Belmont Elementary School									
Cause									
Ingham ISD									
Oakland Schools									
Oakland University									
Parkside Elementary School									
Redford Union School			223.18			223.18		223.18	
Sparta Area Schools - High									
Sparta Area Schools - Middle			15,000.00			15,000.00		15,000.00	
St. Joseph County ISD									
Saginaw ISD									
Shiawassee RESD									
Wayne RESA									
Total Passed to Subrecipients			15,223.18			15,223.18		15,223.18	
State Improvement Grant (02/01/05-04/30/06)									
Proj 050620/03001	84.323A	22-0-744450							
Passed thru to:									
Farmington Public Schools			274.44		274.44				
Parkside Elementary School			5,000.00	5,000.00	5,000.00		5,000.00		
Sparta Area Schools - Middle			29,170.70	13,370.00	13,370.00	15,800.70	29,170.70		
Wayne RESA			134,221.36	86,826.23	86,826.23	47,395.13	134,221.36		
Total Passed to Subrecipients			168,666.50	105,196.23	105,470.67	63,195.83	168,392.06		

**SCHEDULE OF FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS
MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
YEAR ENDED JUNE 30, 2006**

Program Title/ Grant Number Subrecipient Name	Fed CFDA #	MARESA Program #	Subrecipient Award/ Contract Amount	Due to (From) Subrecipients 6/30/2005	Subrecipient Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Trans to Recipients	Due to (From) Subrecipients 6/30/2006	Adjustments
UPAN (Autism Project) (9/1/04-6/30/05)									
Proj 050490-1D20 \ 4-10101	84.027A	22-0-794250							
Total Passed to Subrecipients									
Gwinn			294.04	294.04			294.04		
Marquette			1,052.62	1,052.62			1,052.62		
Munising			323.46	323.46			323.46		
Nice									
Copper Country ISD			2,522.00	1,255.00	2,522.00		1,255.00		
Delta-Schoolcraft ISD			2,522.00	276.99	1,398.57	1,123.43	1,400.42		
Dickinson-Iron ISD			2,522.00		2,522.00				
Eastern UP ISD			3,534.00	3,534.00	3,534.00		3,534.00		
Gogebic-Ontonagon ISD			6,642.24	3,463.16	6,313.05	329.19	3,792.35		
Menominee County ISD			2,522.00		2,522.00				
Total Passed to Subrecipients			21,934.36	10,199.27	20,481.74	1,452.62	11,651.89		
UPAN (Autism Project) (9/1/05-6/30/06)									
Proj 060490-3D51	84.027A	22-0-794260							
Total Passed to Subrecipients									
Burt			74.39			74.39	74.39		
Gwinn									
Ishpeming			272.77			272.77	272.77		
Marquette			144.44			144.44	144.44		
Munising			163.67			163.67	163.67		
Negaunee			669.55			669.55	669.55		
Nice									
Copper Country ISD			3,352.00			3,352.00	1,330.00	2,022.00	
Delta-Schoolcraft ISD			3,352.00			3,352.00	837.36	2,514.64	
Dickinson-Iron ISD			3,352.00			3,352.00	3,352.00		
Eastern UP ISD			4,399.00			4,399.00	4,399.00		
Gogebic-Ontonagon ISD			8,757.00						
Menominee County ISD			3,352.00			3,352.00	716.00	2,636.00	
Total Passed to Subrecipients			27,888.82			19,131.82	11,959.18	7,172.64	
TOTAL FEDERAL FINANCIAL AWARDS PROVIDED TO SUBRECIPIENTS			2,191,775.26	246,202.62	1,249,807.63	952,591.88	860,728.80	338,065.70	

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Marquette-Alger Regional Educational Service Agency
Marquette, Michigan 49855

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marquette-Alger Regional Educational Service Agency as of and for the year ended June 30, 2006, which collectively comprise Marquette-Alger Regional Educational Service Agency's basic financial statements and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marquette-Alger Regional Educational Service Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

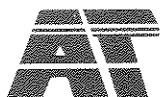
As part of obtaining reasonable assurance about whether Marquette-Alger Regional Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Board of Education
Marquette-Alger Regional Educational Service Agency
Marquette, Michigan 49855

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

September 15, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Marquette-Alger Regional Educational Service Agency
Marquette, Michigan 49855

Compliance

We have audited the compliance of Marquette-Alger Regional Educational Service Agency with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Marquette-Alger Regional Educational Service Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Marquette-Alger Regional Educational Service Agency's management. Our responsibility is to express an opinion on Marquette-Alger Regional Educational Service Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marquette-Alger Regional Educational Service Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marquette-Alger Regional Educational Service Agency's compliance with those requirements.

In our opinion, Marquette-Alger Regional Educational Service Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Board of Education
Marquette-Alger Regional Educational Service Agency
Marquette, Michigan 49855

Internal Control Over Compliance

The management of Marquette-Alger Regional Educational Service Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Marquette-Alger Regional Educational Service Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition, in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 15, 2006

MARQUETTE ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue July 1, 2005	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2006
U.S. Department of Justice Pass through Pathways to Healthy Living Office of Juvenile Justice & Delinquency Prevention Project 2002-JN-FX-0013 04-05	16.729	\$ 43,800	\$ 38,188	\$ 23,564	\$ 5,612	\$ 29,176	\$ -
TOTAL U.S. DEPARTMENT OF JUSTICE		43,800	38,188	23,564	5,612	29,176	-
U.S. Department of Labor Pass through State of Michigan Department of Labor & Economic Growth Office of Career & Technical Prep. Work force Investment Act Incentive Grant Section 503 Entrepreneurship Curriculum Development Project 650W02-01	17.267	194,490	23,315	23,315	171,175	194,490	-
TOTAL U.S. DEPARTMENT OF LABOR		194,490	23,315	23,315	171,175	194,490	-
U.S. Department of Education: Passed through Mich. Department of Education: Title I Grants to Local Educational Agencies Part A Project 061530 0506 Project 051530 0405 Part D Project 041700 0304 Project 041700 0405 Project 051700 0506 Project 061700 0506 Project 051700 0405	84.010 84.010 84.010 84.010 84.010 84.010	13,509 9,900 27,753 12,797 17,929 34,015 28,404	- 9,900 9,540 12,797 - - 19,018 51,255	- 9,900 - 848 - - 15,245 25,993	13,509 - - - 17,929 18,048 9,386 58,872	- 9,900 - 848 14,046 14,793 24,631 64,218	13,509 - - - 3,883 3,255 - 20,647
TOTAL		144,307	51,255	25,993	58,872	64,218	20,647
Special Education Grants to State P.L. 94-142 Flow Through Project 060450 0506 Project 040450 0304 Project 050450 0405	84.027 84.027 84.027	2,081,475 1,784,451 2,033,117	- 401,771 1,734,868	- - 390,168	1,727,333 - 298,249	1,145,278 - 688,417	582,055 - -

MARQUETTE ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue July 1, 2005	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2006
Special Education IDEA/ISD							
Project 060470 1D33	84.027	\$ 390,000	\$ -	\$ -	\$ 126,682	\$ 43,492	\$ 83,190
Project 060470 2D33	84.027	2,100,000	-	-	989,999	799,763	190,236
Project 050470 1D33	84.027	361,356	343,415	158,463	17,941	176,404	-
State Initiated Competitive							
Project 060480 EOSD	84.027	50,000	-	-	50,000	37,161	12,839
Project 050480 EOSD	84.027	40,000	40,000	-	-	-	-
Project 050480 TMT	84.027	14,449	14,449	5,310	-	5,310	-
State Ed. IDEA State Initiated Department							
Project 040490 CB	84.027	-	-	-	-	-	-
Project 060490 TS	84.027	70,000	-	-	70,000	60,519	9,481
Project 050490 CB	84.027	26,295	26,295	176	-	176	-
Project 050490 TS	84.027	70,000	70,000	6,694	-	6,694	-
TOTAL		9,021,143.00	2,630,798.00	560,811.00	3,280,204.00	2,963,214.00	877,801
Special Education - Preschool Grants							
Project 060460 0506	84.173	105,756	-	-	104,756	75,442	29,314
Project 040460 0304	84.173	107,615	54,902	-	-	-	-
Project 050460 0405	84.173	107,380	80,163	35,976	27,217	63,193	-
		320,751	135,065	35,976	131,973	138,635	29,314
Special Education - Infants & Families with Disabilities							
Infant & Toddler Formula Grants							
Project 061340 190	84.181	113,237	-	-	81,025	68,947	12,078
Project 041340 190	84.181	132,703	36,832	3,025	-	3,025	-
Project 051340 190	84.181	119,328	88,727	11,896	30,601	39,420	3,077
		365,268	125,559	14,921	111,626	111,392	15,155
Safe & Drug Free Schools & Communities - State Grants							
Drug Free Formula							
Project 062860 0506	84.186	167,818	-	-	136,111	97,821	38,290
Project 052860 0506	84.186	13,253	-	-	13,253	12,987	266
Project 042860 0405	84.186	49,246	49,246	-	-	-	-
Project 052860 0405	84.186	164,185	164,185	54,196	-	54,196	-
		394,502	213,431	54,196	149,364	165,004	38,556

MARQUETTE ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number		Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue July 1, 2005	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2006
Homeless Children & Youths								
HAA VII-B Homeless Child Education								
Project 042320 0405C		84.196	\$ 17,120	\$ 17,120	\$ -	\$ -	\$ -	\$ -
Project 062320 0506		84.196	131,905	-	-	118,145	99,194	18,951
Project 052320 0405		84.196	124,275	113,112	21,193	11,163	32,356	-
			273,300	130,232	21,193	129,308	131,550	18,951
Voc Ed. Tech-prep Education								
Voc Ed. Technical Prep								
Project 063540 601402		84.243	103,875	-	-	103,875	51,693	52,182
Project 053540 501402		84.243	100,853	100,853	18,356	-	18,356	-
			204,728	100,853	18,356	103,875	70,049	52,182
Innovative Education Program Strategies								
Title V LEA Allocation								
Project 060250 0506		84.298	10,782	-	-	2,270	2,270	-
Project 040250 0304		84.298	23,700	19,995	-	-	-	-
Project 050250 0405		84.298	17,299	4,098	2,794	13,201	15,995	-
			51,781	24,093	2,794	15,471	18,265	-
Technology Literacy Challenge Funds Grant								
Title II, Part D - Enhancing Education. Through Technology								
Project 044300 01		84.318	50,000	42,604	-	-	-	-
TOTAL			50,000	42,604	-	-	-	-
State Program Improvement Grants								
State Improvement								
Project 060620 03001		84.323	1,386,000	-	-	671,875	298,857	373,018
Project 020620 03001C		84.323	119,152	119,152	-	-	-	-
Project 030620 03001		84.323	1,869,000	1,584,732	-	-	-	-
Project 050620 03001		84.323	1,386,000	719,156	476,472	666,844	1,143,316	-
			4,760,152	2,423,040	476,472	1,338,719	1,442,173	373,018
Improving Teacher Quality State Grant								
State Grant Title II Part A								
Project 040520 0304		84.367	329	329	-	-	-	-
Project 060520 0506		84.367	194	-	-	194	111	83
Project 050520 0405		84.367	337	337	337	-	337	-
			860	666	337	194	448	83
TOTAL PASSED THROUGH MDE			15,586,792	5,877,596	1,211,049	5,319,606	5,104,948	1,425,707

MARQUETTE ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number									
Pass-Through Grand Valley State University									
Special Education Grants to State IDA Part B State Mandated Activities Grant									
Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue July 1, 2005	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2006			
84.027	\$ 51,016	\$ -	\$ -	\$ 27,594	\$ 45,914	\$ (18,320)			
84.027	2,000	2,000	-	-	-	-			
84.027	38,410	27,025	(11,385)	11,385	-	-			
TOTAL	91,426	29,025	(11,385)	38,979	45,914	(18,320)			
RCN-UPAN Autism									
Project 050490-ID20									
84.048	112,824	-	-	112,824	32,124	80,700			
84.048	126,132	126,132	76,883	-	76,883	-			
TOTAL	238,956	126,132	76,883	112,824	109,007	80,700			
Pass-Through Delta Schoolcraft Intermediate Schools									
Vocational Education Grant									
Perkins									
Project 06012-02									
Project 05012-02									
84.126	14,756	1,137	-	-	-	-			
84.126	11,805	6,112	1,649	5,693	7,342	-			
TOTAL	26,561	7,249	1,649	5,693	7,342	-			
Pass-Through Department of Career Development									
Michigan Rehabilitation Services									
Vocational Rehabilitation Grant									
Project 2004 59357 54920									
Project 2005 59357 58526									
84.184C	29,580	1,790	-	-	-	-			
84.184C	35,650	31,990	-	-	-	-			
84.184C	50,434	42,680	31,493	7,754	39,247	-			
TOTAL	115,664	76,460	31,493	7,754	39,247	-			
Pass-Through Community Service for Expelled or Suspended Students Eaton ISD									
Title IV									
CSCG SAPE 03-04									
CSCG SAPE 03-04									
CSCG SAPE 04-05									

MARQUETTE ALGER REGIONAL EDUCATIONAL SERVICE AGENCY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number		Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue July 1, 2005	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2006
Pass-Through Dickinson-Iron Intermediate School District								
Teaching American History Grant (Building bridges)								
Project U215X040066		84.215	\$ 38,055	\$ 38,055	\$ 29,313	\$ -	\$ 29,313	\$ -
Project U215X040066		84.215	36,328	-	-	36,328	9,964	26,364
			74,383	38,055	29,313	36,328	39,277	26,364
TOTAL			16,133,782	6,154,517	1,339,002	5,521,184	5,345,735	1,514,451
TOTAL U.S. DEPARTMENT OF EDUCATION								
U.S. Department of Health & Human Services								
Pass through U.P. Health Education Corporation								
Grants for Basic/Care Area Health Education Centers								
Project 2004								
		93.824	5,000	5,000	-	-	-	-
Pass through Department of Community Health								
Medicaid Program								
Medicaid Administrative Outreach								
Medicaid Transportation								
		93.778	50,685	50,685	-	65,561	65,561	-
		93.778	26,088	26,088	-	17,970	17,970	-
			76,773	76,773	-	83,531	83,531	-
TOTAL								
Pass through Pathways for Health Living								
Block Grants for Prevention & Treatment of Substance Abuse								
Project 00 B1 MI SAPT 05-06								
		93.959	84,925	-	-	84,925	48,502	36,423
Project 00 B1 MI SAPT 04-05								
		93.959	84,925	84,925	43,985	-	43,985	-
			169,850	84,925	43,985	84,925	92,487	36,423
TOTAL								
SAMHSA Drug-free Communities Support Program Grants (B)								
Project 1 H79 SP13 154-01								
		93.276	47,000			43,736	6,603	37,133
TOTAL U.S. DEPARTMENT OF HHS								
			298,823	166,698	43,985	212,192	182,621	73,556
Corporation for National and Community Service								
Pass through Michigan Community Service Commission								
Learn and Serve								
Project MCSC ISDLS F 09/05								
		94.004	50,000	29,528	6,797	20,472	27,269	-
Project MCSC ISDLS F 05/06								
		94.004	50,000	-	-	31,581	24,757	6,824
Project MCSC ISDLS F 04/04								
		94.004	46,000	28,848	-	-	-	-
			146,000	58,376	6,797	52,053	52,026	6,824
TOTAL								

MARQUETTE ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	Accrued (Deferred) Revenue July 1, 2005	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue June 30, 2006
Americorps							
Project MCSC MAC F-205 06	94.006	\$ 163,888	\$ -	\$ -	\$ 163,888	\$ 132,585	\$ 31,303
Project MCSC MAC F-170 04	94.006	198,334	19,592	-	-	-	-
Project MCSC MAC F-183 05	94.006	201,608	141,074	20,747	30,191	50,938	-
TOTAL		563,830	160,666	20,747	194,079	183,523	31,303
TOTAL CORPORATION FOR NCS		709,830	219,042	27,544	246,132	235,549	38,127

U.S. Department of Homeland Security
State Domestic Preparedness Equipment Support
Passed through Michigan State Police Department
Homeland Security
Homeland Security, Part II Equipment

97.004	6,600	4,292	-	-	-	-	-
97.004	-	-	-	-	3,777	3,777	-
TOTAL U.S. DEPARTMENT OF HOMELAND SEC.	6,600	4,292	-	-	3,777	3,777	-

TOTAL FEDERAL FINANCIAL ASSISTANCE	\$ 17,387,125	\$ 6,606,052	\$ 1,457,410	\$ 6,160,072	\$ 5,991,348	\$ 1,628,134
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MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

NOTE A – OVERSIGHT AGENCY:

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of Marquette-Alger Regional Educational Service Agency's federal awards.

NOTE B – BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C – FINAL COST REPORT – FORM DS-4044:

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audited figures combined.

NOTE D – SCHEDULE OF FEDERAL AWARDS:

Current Payments per R7120		\$5,104,949
Add payments not on R7120:		
Office of Juvenile Justice & Delinquency Prevention	\$5,612	
Entrepreneurship Curriculum Development	171,175	
Activities Grant	27,594	
RCN – UPAN Autism	11,385	
Perkins	112,824	
Vocational Rehabilitation Grant	5,693	
Title IV	7,754	
Teaching American History Grant (Building Bridges)	36,328	
Medicaid Program	83,531	
Block Grants for Prevention & Treatment of Sub. Abuse	84,925	
SAMHSA Drug – Free Communities	43,736	
Learn and Serve	52,053	
Americorps	194,079	
Homeland Security	3,777	840,466
Less Payments on R7120:		
Recorded as receivable at June 30, 2005:		
Title I	(25,993)	

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

NOTE D – SCHEDULE OF FEDERAL AWARDS (Continued):

Special Education Grants to State	\$(560,811)	
Special Education – Preschool Grants	(35,976)	
Infant & Toddler Formula Grants	(14,921)	
Drug Free Formula	(54,196)	
HAA VII – B Homeless Child Education	(21,193)	
Voc Ed. Technical Prep	(18,356)	
Title V LEA Allocation	(2,794)	
State Improvement Grant	(476,472)	
State Grant Title II Part A	(337)	\$(1,211,049)
<hr/>		
Add Payments not on R7120:		
Recorded as receivable at June 30, 2006:		
Title I	20,647	
Special Education Grants to State	877,801	
Special Education – Preschool Grants	29,314	
Infant & Toddler Formula Grants	15,155	
Drug Free Formula	38,556	
HAA VII – B Homeless Child Education	18,951	
Voc Ed. Technical Prep	52,182	
State Improvement Grant	373,018	
State Grant Title II Part A	83	1,425,707
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Adjustments:		
Due to rounding		(1)
TOTAL FEDERAL AWARDS EXPENDITURES REPORTED IN		
THE SCHEDULE OF FEDERAL AWARDS		<u>\$6,160,072</u>

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue recognized is as follows:

GENERAL FUND:		
Total Federal Revenue Sources Reported in the Financial Statements		\$2,161,496
SPECIAL EDUCATION SPECIAL REVENUE FUND:		
Federal Sources - Reported in the Financial Statements		3,997,016
ADJUSTMENTS:		
Minor Reconciling Items		1,560
TOTAL FEDERAL AWARD EXPENDITURES REPORTED IN		
THE SCHEDULE OF FEDERAL AWARDS		<u>\$6,160,072</u>

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

SUMMARY OF AUDIT RESULTS:

1. The auditors' report expresses an unqualified opinion on the financial statements of Marquette-Alger Regional Educational Service Agency.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Marquette-Alger Regional Educational Service Agency, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions were disclosed regarding the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Marquette-Alger Regional Educational Service Agency expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that require disclosure under Section 510(a) of OMB Circular A-133.
7. The programs tested as major were:

The State Performance Plan Development and Implement Grant	CFDA #84.027
Flow Through	CFDA #84.027
State Initiated Competitive – ESOD	CFDA #84.027
Personnel Development	CFDA #84.027
MI IDEA Transition	CFDA #84.027
Start Project – UPAN	CFDA #84.027
8. The threshold for distinguishing Type A & B programs was \$300,000.
9. Marquette-Alger Regional Educational Service Agency qualified as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT:

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

None

MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICE AGENCY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year June 30, 2006

There were no financial statement findings nor findings and questioned costs for major federal awards in the prior year.



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

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MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

September 15, 2006

Board of Education
Marquette-Alger Regional Service Agency
Marquette, MI 49855

We have audited the basic financial statements of the Marquette-Alger Regional Service Agency for the year ended June 30, 2006, and have issued our report thereon dated September 15, 2006. Professional Standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 19, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatements and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Marquette-Alger Regional Service Agency. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Agency are described in Footnote A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 05-06 fiscal year. We noted no transactions entered into by the Marquette-Alger Regional Educational Service Agency during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. These estimates are relatively insignificant in relation to the financial statements as a whole.

Board of Education
Marquette-Alger Regional Service Agency
Marquette, Michigan 49855

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Agency's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Agency, either individually or in the aggregate, indicate matters that could have a significant effect on the Agency's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Marquette-Alger Regional Service Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

This information is intended solely for the use of the Board of Education and management of the Marquette-Alger Regional Service Agency and is not intended to be and should not be used for anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants